

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Migden Analyst: Raul Guzman Bill Number: SB 565
Related Bills: See Legislative History Telephone: 845-4624 Introduced Date: 02/18/2005
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Low-Income Housing Tax Credit Allocation Program

SUMMARY

This bill would increase the maximum amount of low-income housing tax credit that may be set aside for small developments.

PURPOSE OF THE BILL

It appears the purpose of this bill is to increase the amount of low-income housing credit that may be allocated for small developments.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2006.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal law allows a credit for the costs of constructing, rehabilitating, or acquiring low-income housing. The credit amount varies depending on several factors, including when the housing was placed in service and whether it was federally subsidized. The credit is claimed over 10 years. The California Tax Credit Allocation Committee (TCAC) has the authority to oversee the process and allocate the credit.

Current state law conforms to federal law except that the state low-income housing credit is claimed over four years, limited to projects located in California, and allocated in amounts that may vary, as described below:

- Prior to 1998, the TCAC was allowed to set aside a maximum of \$35 million annually for purposes of allocating the low-income housing credit.
- From 1998 through 2000, TCAC was allowed to set aside a maximum of \$50 million annually.
- From 2001 to present, TCAC is allowed to set aside a maximum of \$70 million annually.
- Beginning with 2002 the cap is adjusted annually for inflation.

Of the current annual maximum amount of \$70 million, the amount that may be set aside for small developments is 2% or approximately \$1.4 million.

Board Position:

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_____ N	_____ OUA	<u> X </u> PENDING

Department Director

Date

Gerald H. Goldberg

4/18/05

TCAC is required to give preference to projects that satisfy threshold requirements and meet additional criteria. TCAC provides listings of qualified taxpayers to the Franchise Tax Board.

THIS BILL

This bill would increase the amount of low-income housing tax credit set aside for small developments from 2% to 5%.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

SB 73 (Dunn, Stats. 2001, Ch. 668) increased the aggregate allocation amount for the low-income housing credit to \$70 million for each calendar year after 2001.

AB 1626 (Torklason & Migden, Stats. 2000, Ch. 3) increased the aggregate allocation amount for the low-income housing credit to \$50 million for each calendar year after 1999.

AB 97 (Torklason, Stats. 1999, Ch. 983) provided the chapter authorizing the Committee to allocate the credit and that it would remain in effect as long as the federal low-income housing credit is in effect.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Florida provides corporations an income tax credit of 9% that is allocated among designated projects by the Florida Housing Finance Corporation. Effective through June 30, 2005, a 50% community contribution credit is allowed for the revitalization of enterprise zones.

Massachusetts provides the lesser of 50% of the federal per capita low-income tax credits or \$4 million plus any unused or returned low-income housing tax credits from preceding years.

New York has provided a credit since 2000, the credit is taken over a 10-year period and is administered by the New York State Division of Housing and Community Renewal. The aggregate dollar amount from 2000 to 2001 was \$2 million; from 2002 to 2003 was \$4 million, 2004 and after is \$6 million.

Review of *Illinois, Michigan, and Minnesota* laws found no comparable tax credits or deductions.

FISCAL IMPACT

This bill would not impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Since the bill would not change the total amount of credits available for allocation, it is not expected to have a significant impact, if any, on state income tax revenues.

LEGISLATIVE STAFF CONTACT

Raul Guzman
Franchise Tax Board
845-4624
raul.guzman@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
brian.putler@ftb.ca.gov